

STATE OF SOUTH CAROLINA

Application of South Carolina Electric & Gas
Company for Increases and Adjustments in Electric
Rate Schedules and Tariffs and Request for Mid-
Period Reduction in Base Rates for Fuel

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2012 - 218 - E

(Please type or print)

Submitted by: Matthew W. GissendannerSC Bar Number: 76027

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NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

- ☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously
- ☐ Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)			
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input checked="" type="checkbox"/> Letter	<input type="checkbox"/> Request	
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification	
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation	
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement	
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment	
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter	
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response	
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery	
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition	
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation	
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena	
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff	
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input checked="" type="checkbox"/> Other: Testimony in	
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	Support of	
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	Memorandum of the	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	Understanding	



Matthew W. Gissendanner
Assistant General Counsel

matthew.gissendanner@scana.com

November 20, 2012

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Chief Clerk / Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

RE: Application of South Carolina Electric & Gas Company for Increases
and Adjustments in Electric Rate Schedules and Tariffs and Request
for Mid-Period Reduction in Base Rates for Fuel;
Docket No. 2012-218-E

Dear Ms. Boyd:

Enclosed for filing, on behalf of South Carolina Electric & Gas Company, is
the testimony of Stephen A. Byrne and Jimmy E. Addison in support of the
Memorandum of Understanding, dated November 19, 2012, and filed in the above-
referenced docket.

By copy of this letter, we are serving all other parties of record with a copy of
the enclosed testimony and attach a certificate of service to that effect.

If you have any questions regarding this matter, please advise.

Very truly yours,

Matthew W. Gissendanner

MWG/mcs
Enclosure

cc: John W. Flitter
Nanette S. Edwards, Esquire
Jeffrey M. Nelson, Esquire
(all via electronic mail and hand delivery w/ enclosures)

The Honorable Jocelyn G. Boyd

November 20, 2012

Page 2

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Barry A. Naum, Esquire

Mary Kathryn King, Esquire

(all via electronic mail and U.S. First Class Mail w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2012 - 218 - E

IN RE:

Application of South Carolina Electric & Gas Company for Increases and)	
Adjustments in Electric Rate Schedules)	CERTIFICATE OF SERVICE
and Tariffs and Request for Mid-Period)	
Reduction in Base Rates for Fuel)	
_____)	

This is to certify that I have caused to be served this day one (1) copy of South Carolina Electric & Gas Company's **Testimony of Stephen A. Byrne and Jimmy E. Addison in support of the Memorandum of Understanding** to the persons named below via electronic mail as well as in the manner described at the addresses set forth:

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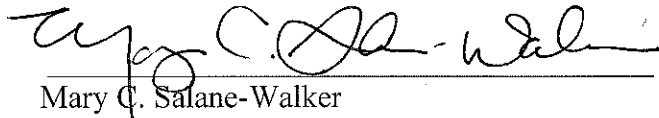
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Mary C. Salane-Walker

Cayce, South Carolina

This 20th day of November, 2012

1 **MOU TESTIMONY OF**

2 **STEPHEN A. BYRNE**

3 **ON BEHALF OF**

4 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

5 **DOCKET NO. 2012-218-E**

6
7 **Q. PLEASE STATE YOUR NAME FOR THE RECORD.**

8 **A.**My name is Stephen A. Byrne.

9
10 **Q. ARE YOU THE SAME STEPHEN A. BYRNE WHO HAS**
11 **PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?**

12 **A.**I am.

13
14 **Q. WHAT IS THE SUBJECT OF THIS MOU TESTIMONY?**

15 **A.**South Carolina Electric & Gas Company (“SCE&G” or the
16 “Company”); the Office of Regulatory Staff (the “ORS”); Wal-Mart Stores
17 East, LP and Sam’s East, Inc. (“Walmart”); Frank Knapp, Jr.; the
18 Department of the Navy; and AARP have entered into a Memorandum of
19 Understanding (“MOU”) dated November 19, 2012, that reflects an
20 agreement on the matters at issue in this proceeding and on an appropriate
21 rate adjustment for consideration by the Commission. While all parties to
22 this proceeding have not agreed to the MOU, the parties to it include the

1 ORS and parties representing a diverse group of customers and rate classes.
2 My testimony presents the key terms of the MOU for consideration by the
3 Commission.

4

5 **Q. WHAT ARE THE PRINCIPAL TERMS OF THE MOU?**

6 A. In the MOU, the parties have agreed to propose to the Commission a
7 rate adjustment that reflects the following terms:

- 8 1. Rates set to produce an ROE of 10.25%;
- 9 2. Revenue requirements reflecting all of the recommendations as to
10 pro forma adjustments and related matters set forth in the testimony
11 and exhibits of ORS's Witnesses Michael R. Cartin, Leigh C. Ford,
12 and Michael Seaman-Huynh and the accounting adjustments set
13 forth in ORS Witness Henry N. Webster's audit exhibits HNW-1
14 and 2;
- 15 3. A rate rider to recover current pension expense of \$.00051 per kWh
16 as described in the testimony of ORS's Witness Leigh C. Ford.

17

18 **Q. WHAT ARE THE TERMS OF THE MOU RELATED TO FUEL**
19 **COSTS?**

20 A. In the MOU, the parties agree that the Commission should approve
21 an adjustment in SCE&G's Base Fuel Component to 3.278 cents per kWh

1 which would decrease fuel costs by \$58 million annually. The parties
2 agree that this Base Fuel Component should remain in effect until the last
3 billing cycle of April 2014 except in case of unforeseen extraordinary
4 economic or financial conditions. The parties agree that unrecovered fuel
5 cost balances that exceed \$24 million should earn interest at the 3-year
6 United States Treasury Note rate plus 65 basis points.

7

8 **Q. DOES THE MOU PRECLUDE SCE&G FROM ADJUSTING THE**
9 **VARIABLE ENVIRONMENTAL COST COMPONENT OF ITS**
10 **TOTAL FUEL COST FACTOR PRIOR TO APRIL 2014?**

11 **A.** No. SCE&G may adjust the variable environmental cost component
12 of its total fuel cost factor pursuant to Section 58-27-865.

13

14 **Q. WHAT ARE THE TERMS OF THE MOU RELATED TO FUTURE**
15 **RATE PROCEEDINGS?**

16 **A.** In the MOU, SCE&G agrees that it will not seek any adjustment to
17 its electric base rates which would be effective before January 1, 2015,
18 except in case of unforeseen extraordinary economic or financial
19 conditions. This moratorium does not apply to requests for revised rates
20 under Section 58-33-280; adjustments to the Base Fuel Component
21 approved under Section 58-27-865 after April 1, 2014; or requests to update
22 SCE&G's DSM rate rider and Energy Efficiency programs.

1 **Q. IF ADOPTED BY THE COMMISSION, WHAT WOULD THE NET**
2 **IMPACT OF THE MOU BE ON RATES?**

3 **A.** The net impact of the request, after the adjustments discussed above
4 including the fuel and DSM adjustments, would be a revenue increase of
5 \$32 million or 1.38%. The following chart summarizes the rate impact by
6 rate class:

7 **CHART A**
8 **MOU Rate Impact**

	AS FILED					
	Base	Fuel	DSM	Net	MOU	Net
<u>Class</u>	<u>Request</u>	<u>Reduction</u>	<u>Reduction</u>	<u>Impact</u>	<u>Reduction</u>	<u>Increase</u>
Residential	7.35%	-2.15%	-0.35%	4.85%	-3.05%	1.80%
Small General Service	4.19%	-2.17%	-0.66%	1.36%	-1.28%	0.08%
Medium General Service	5.99%	-2.65%	-0.56%	2.78%	-2.15%	0.63%
Large General Service	7.17%	-3.44%	-0.03%	3.69%	-2.02%	1.67%
Lighting	7.41%	-1.29%	0.00%	6.11%	-2.66%	3.45%
Retail Total	6.61%	-2.51%	-0.34%	3.75%	-2.37%	1.38%

10

11 **Q. DOES THIS CONCLUDE YOUR MOU TESTIMONY?**

12 **A.** Yes, it does.

1 testimony is to address the Return on Equity ("ROE") on which the rates
2 agreed to in the MOU have been set.

3
4 **Q. HOW DOES THE ROE CONTAINED IN THE MOU COMPARE TO**
5 **THE COMPANY'S CURRENTLY-APPROVED ROE AND THE**
6 **ROE THAT SCE&G INITIALLY REQUESTED IN THIS**
7 **PROCEEDING?**

8 **A.** The ROE contained in the MOU is 10.25%, which is 45 basis points
9 lower than the currently allowed ROE for SCE&G and 70 basis points
10 lower than the ROE that the Company requested in this proceeding. The
11 ROE contained in the MOU is also 25 basis points lower than the ROE
12 granted to Duke Energy Carolinas in its 2011 rate proceeding. With an
13 ROE set at this level, it will be a challenge for the Company to manage its
14 business so as to maintain its creditworthiness and ensure continued access
15 to capital on reasonable terms. The Company is willing to accept the ROE
16 reflected in the MOU as part of a comprehensive package to resolve all
17 issues raised in this proceeding, as acceptance of the MOU by the
18 Commission would do. In addition, the investment community has a strong
19 preference for negotiated resolutions to rate proceedings. While the MOU
20 does not presently include all parties, it includes the ORS and a broad
21 spectrum of parties representing a diverse group of customers. This broad

1 consensus on the terms of the MOU will be seen in a positive light by the
2 investment community.

3

4 **Q. DOES THIS CONCLUDE YOUR MOU TESTIMONY?**

5 A. Yes. It does.